

October 19, 2020

Financial Results for the Fiscal Period from March 1, 2020 to August 31, 2020

Nippon Accommodations Fund Inc. (NAF) is listed on the Tokyo Stock Exchange (J-REIT) with the securities code number 3226. (Website: <https://www.naf-r.jp/english/>)

Executive Director: Takashi Ikeda
Investment Trust
Management Company: Mitsui Fudosan Accommodations Fund Management Co., Ltd.
President and CEO: Tateyuki Ikura
Inquiries: Tetsuji Kawakami, Director and Chief Financial Officer
Tel: +81-3-3246-3677

Scheduled Filing Date of Securities Report: November 30, 2020

Scheduled Commencement Date of Cash Distribution Payment: November 16, 2020

1. Business Results for the Fiscal Period from March 1, 2020 to August 31, 2020

(1) Operating Results *(in millions of yen, rounded down; except as noted)*

	Total revenues		Operating income		Income before income taxes	
		(%)*		(%)*		(%)*
For the period ended						
August 31, 2020	11,520	1.0	5,332	0.5	4,898	0.7
February 29, 2020	11,401	(7.8)	5,307	(12.8)	4,866	(13.5)

	Net income		Net income per unit (yen)	Net income/ net assets (%)	Income before income taxes/ total assets (%)	Income before income taxes/ operating income (%)
		(%)*				
For the period ended						
August 31, 2020	4,897	0.7	10,108	3.5	1.6	42.5
February 29, 2020	4,865	(13.5)	10,041	3.4	1.6	42.7

* Percent figures show changes from previous period.

(2) Distributions*(in millions of yen, rounded down; except as noted)*

	Distribution per unit (not including distributions in excess of earnings) (yen)	Total distributions (not including distributions in excess of earnings)	Distribution in excess of earnings per unit (yen)	Total distributions in excess of earnings	Payout ratio (%)	Distributions/net assets (%)
For the period ended						
August 31, 2020	10,108	4,897	–	–	100.0	3.5
February 29, 2020	10,042	4,865	–	–	100.0	3.4

(3) Financial Position*(in millions of yen, rounded down; except as noted)*

	Total assets	Net assets	Net assets/ total assets (%)	Net assets per unit (yen)
As of				
August 31, 2020	305,840	141,213	46.2	291,448
February 29, 2020	301,946	141,181	46.8	291,382

(4) Cash Flows*(in millions of yen, rounded down; except as noted)*

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents
For the period ended				
August 31, 2020	6,790	(7,062)	(895)	11,574
February 29, 2020	6,832	(730)	(6,063)	12,741

2. Forecasts for the Fiscal Period from September 1, 2020 to February 28, 2021 and Fiscal Period from March 1, 2021 to August 31, 2021

(in millions of yen, rounded down; except as noted)

	Total revenues		Operating income		Income before income taxes		Net income		Distribution per unit (not including distributions in excess of earnings)	Distribution in excess of earnings per unit
	(%)*		(%)*		(%)*		(%)*		(yen)	(yen)
For the period ending										
February 28, 2021	11,577	0.5	5,335	0.1	4,885	(0.3)	4,884	(0.3)	10,080	–
August 31, 2021	11,711	1.2	5,272	(1.2)	4,802	(1.7)	4,801	(1.7)	9,910	–

* Percent figures show changes from previous period.

Note:

The net income per unit projections for the fiscal period ending February 28, 2021 and the fiscal period ending August 31, 2021 are ¥10,080 and ¥9,910, respectively.

3. Other

1. Changes in significant accounting policies, Changes in accounting estimates and Restatement

- (1) Changes in significant accounting policies due to revisions in accounting standards and others: None
- (2) Changes other than in the above item (1): None
- (3) Changes in accounting estimates: None
- (4) Restatement: None

2. Total number of investment units issued

- (1) The total number of investment units issued (including treasury investment units) as of the period-end

As of August 31, 2020: 484,522 units

As of February 29, 2020: 484,522 units

- (2) The number of treasury investment units as of the period-end

As of August 31, 2020: - units

As of February 29, 2020: - units

Disclaimer:

The above forecasts are based on information currently available to NAF and on certain assumptions deemed to be reasonable. Actual operations may differ substantially due to a number of factors. Accordingly, the forecasts are not a guarantee of any cash distribution amount.

29th Period (August 2020) Overview of Investment

Main Trend of NAF

NAF is a J-REIT that invests in “Accommodation Assets,” which it defines as real estate that is mainly used/may be used for residence or hotels. Based on the Act on Investment Trusts and Investment Corporations (hereinafter “Investment Trust Act”), NAF was established on October 12, 2005, and was listed on the Real Estate Investment Trust Securities Market (J-REIT Market) of the Tokyo Stock Exchange on August 4, 2006 (securities code number: 3226).

Since being listed, NAF has continued to acquire properties and the assets under management at the end of the period under review consisted of 128 properties at a total acquisition price of ¥316,208 million (assets at time of listing: 27 properties at a total acquisition price of ¥101,385 million).

Investment Environment

During the six months ended August 31, 2020 (the “29th Period”), actual GDP (the 2nd preliminary) from April to June recorded a record low of negative 28.1% (on an annualized basis) year on year as a result of the sudden decrease in personal consumption due to people refraining from going out and the government declaring a state of emergency because of the spread of the novel coronavirus disease (COVID-19) in the first half, as well as a decrease in exports and production on the backdrop of the spread of the virus. In the second half, despite signs of personal consumption, exports, production, etc. gradually recovering due to the declaration of the lifting of the state of emergency and resumption of economic activity globally, the situation continues to be difficult as the recovery of the employment situation, capital investment, etc. is sluggish.

In NAF’s main investment area, the residential rental market, despite the number of tenants signing contracts decreasing year on year due to the impact of people refraining from going out, occupancy rates generally remained high as contract cancellations also decreased.

In the real estate trading market, despite the number of contracts and sale amount temporarily decreasing, demand from investors with regard to rental apartments, where occupancy and revenue is stable, was steady and the impact of the spread of COVID-19 was limited.

External Growth (Acquisition and sale of properties)

During the period under review, NAF newly acquired 55% co-ownership of Park Axis Akatsuka in March 2020 and 70% co-ownership of Park Cube Oimachi Residence in July 2020 (a total of two properties with a total acquisition price of ¥6,484 million).

Internal Growth (Management and operation of properties held by NAF)

NAF has chosen Mitsui Fudosan Residential Lease Co., Ltd. as property management company on management of NAF's rental apartments portfolio. The company and Mitsui Fudosan Accommodations Fund Management Co., Ltd., the asset management company of NAF, collaborate in the management of properties NAF owns, implementing effective management and operational activities based on regional characteristics and the individual features of each property. Specifically, NAF maintains and improves its rent levels and occupancy rate through the implementation of a leasing strategy that has been formulated for each individual property. In addition, NAF aims to reduce costs by utilizing the merits of outsourcing all property management tasks to the property management company while examining, whenever necessary, the adequacy of the grade of property management, cost of management and operation.

As a result of these initiatives, occupancy rates for rental apartments were generally at a high level this period, and the impact of COVID-19 on the management and operation of rental apartments was limited due to rent levels maintaining an upward trend when tenants change.

Meanwhile in the management of "Hospitality Facilities" ^(Note), NAF contracts out the management and operational activities to a professional operator or business corporation. The asset management company regularly monitors the management and operational activities, and makes adjustments through professional dialog with the operator or business corporation as necessary.

In order to maintain and improve the competitiveness of NAF's portfolio, operations are adequately planned and carried out at the asset management company. These include appropriate renewal work according to the property age, and work to enhance the property value. In addition, NAF is not only making continuous efforts to reduce costs, but also introducing such features as environmentally friendly, energy-saving facilities in a timely manner.

In the period under review, NAF carried out renovations in private areas at Okawabata Apartment Communities. At other properties, NAF planned and implemented such works as changing the lighting in common areas to LED lighting.

(Note) "Hospitality Facilities" is a generic term for "Accommodation Assets" that includes the four categories of "Dormitories, Corporate Housing," "Serviced Apartments," "Senior Residences," and "Hotels," excluding "Rental Apartments."

Financial Strategy (Overview of funds procurement)

NAF's basic policy is to carry out operations in a conservative manner that gives consideration to such matters as maintaining stable distributions in the medium and long term. During the period under review, while taking into account market trends and interest rate levels, NAF pursued financing from various sources with diversified repayment dates and an emphasis on long-term, fixed-rate loans in its procurement of funds. In July 2020, NAF issued No.3 Unsecured Investment Corporation Bonds (¥2,000 million over 5 years) and No.4 Unsecured Investment Corporation Bonds (¥2,000 million over 10 years), its first green bonds, and refinanced existing loans.

As a result, at the end of the period, total interest-bearing debt amounted to ¥157,500 million (¥4,000 million increase from previous period), the long-term debt ratio was 98.1%, the long-term, fixed-rate debt ratio was 95.6%, and the loan-to-value (LTV) ratio was 51.5%. The average annual current maturity of long-term interest-bearing debt was 4.6 years and the number of financial institutions was 25. Furthermore, the weighted average interest rate at the end of the period was 0.55%.

NAF also has secured a commitment line for the purpose of securing flexible and stable fund

procurement methods. At the end of the period under review, its total maximum borrowing amount was ¥15,000 million.

With respect to financing through investment corporation bonds, NAF filed a shelf-registration statement regarding its establishment of a maximum issuance amount for investment corporation bonds for public offering in July 2019. The remaining balance of the planned issuance amount at the end of the period is ¥96,000 million.

Planned issuance amount	Up to ¥100,000 million
Scheduled period of issuance	From July 25, 2019 to July 24, 2021
Purpose for funds	Acquisition of specified new assets (as defined in Article 2, Paragraph 1 of the Act on Investment Trusts and Investment Corporations), repayment of borrowings, redemption of investment corporation bonds, repayment of tenant security deposits, payment for maintenance and renovations, and operational use

Rating of NAF as of August 31, 2020 is as follows.

Rating agency	Rating subject	Rating
Rating and Investment Information, Inc. (R&I)	Issuer credit rating	A A - (Trend of rating: Stable)
S&P Global Ratings Japan Inc. (S&P)	Long-term corporate Short-term corporate	A + (Outlook for rating: Stable) A -1

Overview of Performance and Distribution

In the period under review, NAF recorded total revenues of ¥11,520 million, operating income of ¥5,332 million, income before income taxes of ¥4,898 million and net income of ¥4,897 million. In addition to the above, NAF has decided to distribute the majority of retained earnings in accordance with the Distribution Policy (Article 34 of the Articles of Incorporation) set forth by NAF. The distribution per unit was ¥10,108.

Management Policy and Issues for the 30th Period Onward

Looking ahead, the uncertain situation is expected to continue for the Japanese economy due to the impacts of COVID-19. Furthermore, it is necessary to give consideration to risks impacting the real estate market and financial and capital markets due to economic stagnation in Japan and overseas due to the lengthening of the impact.

While the supply of quality rental apartments in which NAF would invest is generally limited in the 23 wards of Tokyo, where nearly 90 percent of NAF's rental apartments portfolio is located, and in the urban areas of other major cities ^(Note), the influx of people from other regions is expected to continue for a certain amount despite the impact of COVID-19. Accordingly, despite the balance of supply and demand being expected to remain generally favorable as demand for rental apartments is continuing, it is necessary to pay attention to the impact on the balance of supply and demand of rental apartments due to the deterioration of the employment and income situation, changes in trends of population migration, etc.

Concerning the real estate trading market, the placement of quality rental apartments as stable investment assets is not expected to change, but trends among financial and capital markets and investors resulting from the spread of COVID-19 should be carefully assessed.

(Note) "Other major cities" refers to each of the urban areas of Sapporo, Sendai, Nagoya, Osaka, Kyoto, Kobe, Hiroshima and Fukuoka.

External Growth (New acquisition of properties)

NAF steadily acquires properties with highly competitive advantage from a medium- to long-term perspective, leveraging our pipeline to the Mitsui Fudosan Group and enhancing information channel at the asset management company.

While concentrating on a property acquisition strategy of stable acquisition of "Rental Apartments," NAF will also acquire "Hospitality Facilities" that offer stable revenue and competitiveness over the long term. With respect to the acquisition of "Hospitality Facilities," NAF will practice due diligence depending on the asset's characteristics.

NAF will keep the Hospitality Facilities' share of the portfolio (based on acquisition price) to a maximum of 10% in the near-term.

Internal Growth (Management and operation of leasehold properties)

In the residential rental market, the balance of supply and demand is expected to remain favorable for the time being.

NAF aims to achieve solid internal growth in accordance with the investment policies by maintaining customer satisfaction and asset value over the long term, maintaining and improving rent levels and occupancy rate, and reducing costs, through brand strategies and tenant services for the investment assets as well as through optimal management and operational activities that utilize the value chain and highly specialized knowhow of the Mitsui Fudosan Group.

Financial Strategy

In regard to borrowings, taking into account borrowing cost, NAF will conduct financing activities that emphasize on financing by long-term, fixed-rate loans and diversified repayment dates by taking measures to counter future interest rate risks and refinancing risks. With respect to the upper

limit of LTV ratio, although the limit is set at around 60% in the asset management guidelines, NAF is aiming for a near-term upper limit at a level of around 55% in its external growth process.

NAF will examine the necessity of issuance of new units by paying attention to market trends and distribution amount levels, and taking into consideration the demand for funds for the purpose of property acquisition, as well as our financial position. Additionally, NAF will examine future issuances of investment corporation bonds in accordance with market trends, within the range of the remaining balance of planned issuance amount for which shelf-registration of NAF bonds has been carried out.

Significant Subsequent Events

Not applicable

(Reference information)

The following asset was acquired on October 1, 2020. The "Acquisition price" is exclusive of miscellaneous expenses for acquisition, fixed property taxes, urban planning taxes, consumption taxes, and local consumption taxes.

Park Axis Toyocho Shinsui Koen

Acquisition price:	¥2,233 million
Appraised value ^(Note) :	¥2,320 million
	(date of value appraisal: August 31, 2020)
Type of property:	Real estate (35% of co-ownership)
Location (residence indication):	34-4 Minamisuna 2-chome, Koto-ku, Tokyo
Completion date:	August 29, 2014
Structure/Number of stories:	Flat-roof reinforced concrete structure/14 stories
Rentable units (total):	190 residential, 2 retail, etc.
Rentable area (total):	7,254.57 m ²
Seller:	Mitsui Fudosan Residential Co., Ltd.

Note: "Appraised value" describes an amount that is equivalent to 35% ownership.

Forecasts of Investment Performance

The forecasts for the 30th period (from September 1, 2020 to February 28, 2021) and for the 31st period (from March 1, 2021 to August 31, 2021) are as follows. For the underlying assumptions of forecasts, please refer to “Underlying assumptions of forecasts for the 30th period (from September 1, 2020 to February 28, 2021) and the 31st period (from March 1, 2021 to August 31, 2021)” below.

	30th period (February 2021)	31st period (August 2021)
Total revenues	¥11,577 million	¥11,711 million
Operating income	¥5,335 million	¥5,272 million
Income before income taxes	¥4,885 million	¥4,802 million
Net income	¥4,884 million	¥4,801 million
Distribution per unit (not including distributions in excess of earnings)	¥10,080	¥9,910
Distribution in excess of earnings per unit	¥ —	¥ —

(Note) The above forecasted figures are calculated based on certain assumptions at the time of preparation of this information. Therefore, actual total revenues, operating income, income before income taxes, net income and distribution per unit may change due to future acquisition or sale of investment assets, fluctuation in the real estate market or other changes in the environment in which NAF operates. Accordingly, the forecasts are not a guarantee of any cash distribution amount.

Underlying assumptions of forecasts for the 30th period (from September 1, 2020 to February 28, 2021) and the 31st period (from March 1, 2021 to August 31, 2021)

Item	Underlying assumptions
Number of operating days:	- From September 1, 2020 to February 28, 2021 (181 days) - From March 1, 2021 to August 31, 2021 (184 days)
Investment assets/ Total revenues	- The number of properties held by NAF as of the date of this document is 129 properties. In the forecasts of investment performance, it is assumed that no transfer of properties (such as acquisition of new properties, sale of properties acquired, etc.) shall occur until August 31, 2021. - The average month-end occupancy rates for total properties for the 30th period and 31st period are expected to be 96.5% and 96.3%, respectively. - The actual figures may change due to factors such as transfer of properties.

Item	Underlying assumptions
Operating expenses	<ul style="list-style-type: none"> - The fixed property taxes and urban planning taxes recognized as expenses are expected to be ¥618 million for the 30th period and ¥630 million for the 31st period. However, when an investment asset is acquired, the fixed property taxes and urban planning taxes that are settled with the previous owner according to the number of days the asset is owned are not recognized as expenses because they are included in the acquisition price. - The amounts recognized for the repairs and maintenance expenses and outsourcing expenses of buildings are the required amounts forecast for the number of operating days. However, because repairs and maintenance expenses and outsourcing expenses may arise suddenly due to some unexpected cause (building damage, etc.), amounts usually vary depending on the year, some expenses arise occasionally, etc., the repair and maintenance expenses and outsourcing expenses for the number of operation days may be different from the amounts forecast. - We calculate depreciation and amortization expenses (including ancillary expenses upon initial acquisition) using the straight-line method, and the expenses are expected to be ¥1,982 million for the 30th period and ¥1,985 million for the 31st period.
Interest-bearing debt/ Non-operating expenses	<ul style="list-style-type: none"> - It is assumed that NAF's balance of interest-bearing debt, which is ¥159,500 million as of the date of this document, shall not change until August 31, 2021. In addition, it is assumed that loans that become due during the period will be fully refinanced. - Interest expense and interest expenses on investment corporation bonds, etc. are expected to be ¥450 million for the 30th period and ¥469 million for the 31st period.
Number of units issued	<ul style="list-style-type: none"> - We assume 484,522 units outstanding as of the date of this document. In the forecasts of investment performance, it is assumed that there shall be no issuance of new units until August 31, 2021.
Distribution per unit (not including distributions in excess of earnings)	<ul style="list-style-type: none"> - Distribution (distribution per unit) is calculated assuming it will be in accordance with the Distribution Policy set forth in the Articles of Incorporation of NAF. - The actual amount may change due to factors such as fluctuations in rent revenues owing to changes in tenants, transfer of properties, interest rate fluctuations, and additional issuance of investment units.
Distribution in excess of earnings per unit	<ul style="list-style-type: none"> - There is no distribution in excess of earnings planned as of the date of this document.
Other	<ul style="list-style-type: none"> - NAF has assumed no enforcement of such revisions to laws and regulations, tax systems, accounting standards, regulations of the Tokyo Stock Exchange and rules of The Investment Trusts Association, Japan, etc. that may affect the above forecasts. - NAF's forecasts assume no unforeseen significant changes in general economic trends or conditions in the real estate market.

Disclaimer:

This financial report has been prepared in accordance with Japanese accounting standards and Japanese laws. Figures have been rounded down to eliminate amounts of less than one million yen.

Please note that this English translation, a summary of the Japanese original document, is provided solely for informational purposes. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.